

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 2646**

January 15, 2010

**SUMMARY OF BILL:** Exempts the purchase and installation of certain wind and solar energy systems from sales and use tax.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$2,149,700/FY10-11  
\$4,299,400/FY11-12 and Subsequent Years**

**Decrease Local Revenue – \$908,200/FY10-11  
\$1,816,400/FY11-12 and Subsequent Years**

**Other Fiscal Impact – Additional forgone revenue to state and local government in subsequent years if sales for qualified energy systems increase as a result of this bill. For every one percent of sales growth attributable to this legislation, the state will forgo approximately \$43,000 in sales tax revenue and local government will forgo approximately \$18,200 in sales tax revenue.**

**Assumptions:**

- Using information from the National Renewable Energy Laboratory (NREL) and data from the Energy Information Administration, the Department of Revenue projected sales in Tennessee for these energy systems to be approximately \$57,300,000 for FY09-10.
- Given recent incentives to purchase energy-efficient systems, sales growth is estimated to be five percent for FY10-11.
- Taxable sales (adjusted for sales growth) for FY10-11 is estimated to be \$60,165,000 ( $\$57,300,000 \times 105.0\% = \$60,165,000$ ).
- Installation of these energy systems is estimated to be seven percent of the cost of equipment (\$4,211,600).
- Total sales for the energy systems plus installation is estimated to be \$64,376,600 in FY10-11 ( $\$60,165,000$  for equipment +  $\$4,211,600$  for installation =  $\$64,376,600$ ).
- The state sales tax rate is seven percent.
- The average local option sales tax rate is estimated to be 2.5 percent.
- The decrease of state sales tax revenue is estimated to be \$4,506,400 per year ( $\$64,376,600 \times 7.0\% = \$4,506,362$ ).

- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), incorporated municipalities receive 4.5925 percent of all state sales tax revenue as state-shared taxes.
- The decrease of local revenue attributable to state-shared taxes is estimated to be \$207,000 per year ( $\$4,506,400 \times 4.5925\% = \$206,956$ ).
- The net decrease to state revenue is estimated to be \$4,299,400 per year ( $\$4,506,400 - \$207,000 = \$4,299,400$ ).
- The decrease of local government revenue attributable to reduced local option sales tax is estimated to be \$1,609,400 per year ( $\$64,376,600 \times 2.5\% = \$1,609,415$ ).
- The total decrease of local government revenue is estimated to be \$1,816,400 per year ( $\$1,609,400 + \$207,000 = \$1,816,400$ ).
- Fiscal impact for FY10-11 is estimated at 50 percent of first full-year impact due to January 1, 2011 effective date.
- This legislation could incentivize consumers to purchase more qualified energy systems in the future. For every one percent of sales growth attributable to this legislation, state and local government will forgo approximately \$43,000 and \$18,200 respectively.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/rnc